Order 2002-3-27
Served: March 29, 2002

161505

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 28th day of March, 2002

Essential Air Service at	
PRINCETON/BLUEFIELD, AND BECKLEY, WEST VIRGINIA	**Docket OST-97-2761** -12
AUGUSTA/WATERVILLE, MAINE BAR HARBOR, MAINE ROCKLAND, MAINE, AND RUTLAND, VERMONT	**Docket OST-97-2784** -14
PRESQUE ISLE/HOULTON, MAINE	**Docket OST-00-8012** - 20
under 49 U.S.C. 41731 *et seq*.	

ORDER SETTING FINAL RATES

Summary
By this order we are setting short-term final subsidy rates, retroactive to October 1, 2001, for Colgan Air's essential air service (EAS) at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, through December 31, 2002; at Presque Isle, Maine, through May 31, 2003; and at Beckley and Princeton/Bluefield, West Virginia, through July 31, 2002.

Discussion
As discussed in Order 2002-2-13, the Department authorized emergency EAS payments to subsidized carriers because of the losses suffered by them in the face of generally lower revenue and higher costs after the terrorist attacks combined with the fact that the EAS carriers are paid on a pre-agreed, fixed rate per flight. That order provided for immediate increases to the final rates then in place on an *ad hoc*, interim basis, along

with authority to re-negotiate new final rates retroactive to October 1 until the end of the carriers' selection term as provided in the order. [1]

Colgan was selected to provide subsidized service to Beckley and Princeton/Bluefield by Order 2000-8-16, with the rate due to expire on July 31, 2002; to Presque Isle/Houlton, Maine, by Order 2001-2-9, expiring May 31, 2003; and at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland Vermont, by Order 2001-1-22, expiring December 31, 2002. Colgan and the staff have agreed to new subsidy rates for its three subsidized routes. On each route, we have recognized decreased revenue based on the carrier's actual experience since October 1, 2001, and a projected gradual recovery of traffic going forward. As shown in detail in the attached appendices, the new rates also reflect increased insurance expenses and higher costs for its pilots and general and administrative (G & A), offset to some degree by generally lower fuel prices than were contemplated in the carrier selection orders, somewhat lower lease costs negotiated by the carrier with its lessors, and reduced training costs. [2]

Because the rates will not be in effect for annual periods (some longer, some shorter), the subsidy levels in the appendices do not reflect annual bases. For ease of comparing the new and prior rates, we show below the annual subsidy levels of the new rates as if they were applied on a 12-month basis.

	Annual Rate in Selection Order	12-Month Rate From Appendix
Beckley/Bluefield, WV	$1,715,060	$2,490,314
Presque Isle, ME	$1,082,408	$1,480,512
Augusta/Waterville, Bar Harbor, Rockland, ME, and Rutland, VT	$2,536,579	$4,823,420

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department sets the final subsidy rate for Colgan Air, Inc., for the provision of essential air service at Beckley and Princeton/Bluefield, West Virginia, as described in Appendix C-1, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to the hub of Pittsburgh or Washington by $518.30; [3]

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1 See Order 2002-2-13 for a complete discussion of the emergency relief.

2 The increase in percentage of administrative costs to total costs was reflected in the carrier's historical experience since October 1, and is due to Colgan's adjusting its system to the new competitive environment. Over time, this G & A expense is projected to decrease to levels Colgan experienced before the terrorist attacks.

3 See Appendix C-1 for calculation.

2. The Department sets the final subsidy rate for Colgan Air, Inc., for the provision of essential air service at Augusta/Waterville, Bar Harbor, Rockland, Maine, and Rutland, Vermont, as described in Appendix C-2, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible flights completed during the month to the hub of Boston by $664.16; [4]

3. The Department sets the final subsidy rate for Colgan Air, Inc., for the provision of essential air service at Presque Isle, Maine, as described in Appendix C-3, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights each way completed during the month to the hub of Boston by $769.42; [5]

4. These rates are in lieu of, and not in addition to, those set by Orders 2000-8-16, 2001-2-9, 2001-1-22, or 2002-2-13;

5. We direct Colgan to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order; and

6. The Department will serve copies of this order on the Governor and Department of Transportation of the State of Maine, Vermont, and West Virginia, and Colgan Air, Inc.

By:

Read C. Van de Water
Assistant Secretary for Aviation
and International Affairs

(SEAL)

An electronic version of this document is available on the World Wide Web at
http://dms.dot.gov

[4] See Appendix C-2 for calculation.

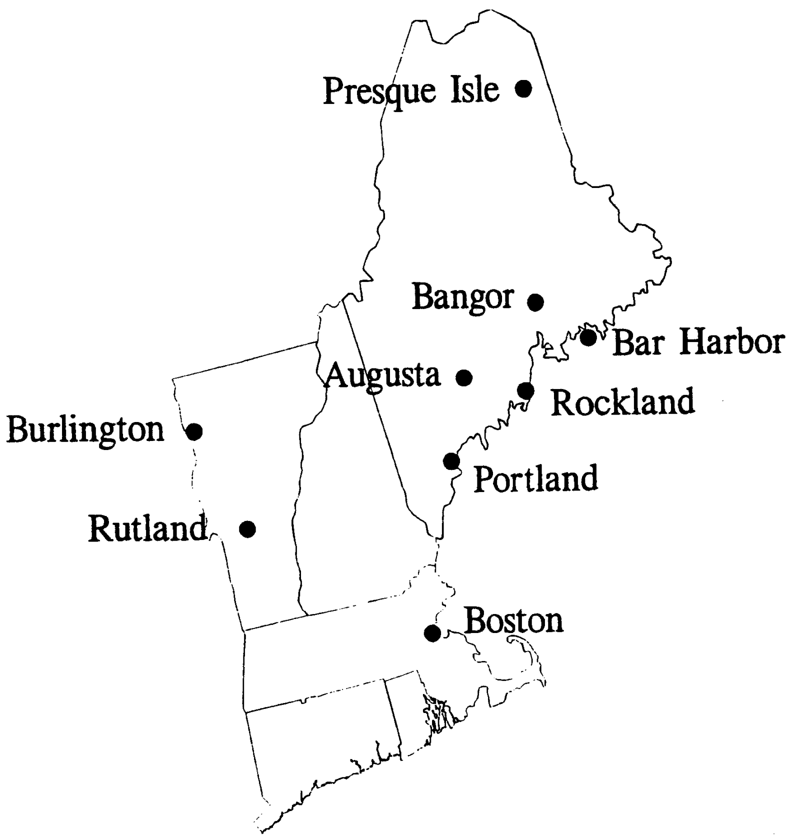
[5] See Appendix C-3 for calculation.

BECKLEY AND BLUEFIELD/PRINCETON, WEST VIRGINIA

Mileages

Beckley-Bluefield	34
Beckley-Dulles	215
Bluefield-Dulles	234
Beckley-Pittsburgh	193
Bluefield-Pittsburgh	227

MAINE AND VERMONT



Mileages

Presque Isle-Bangor	135
Presque Isle-Portland	237
Presque Isle-Boston	332
Augusta-Boston	148
Augusta-Portland	53
Bar Harbor-Bangor	34
Bar Harbor-Boston	196
Rockland-Portland	67
Rutland-Boston	127
Rutland-Burlington	66

Colgan Air, Inc., d/b/a USAirways Express, Docket 2761
Compensation Requrement for EAS at Beckley and Princeton/Bluefield, West Virginia
10-Months Ended July 31, 2002

	4 r.t./day 10-Month Basis 10/1/01-7/31/02
Total Revenue	$740,658 1/
Flight Hours	2,158 2/
Beckley Pax.	3,815
Bluefield Pax.	2,962
Total Pax.	6,777
Flying Ops. @ $142.98 & $137.98/hr	$308,551
Fuel @ $154.98/hr.	$334,447
Maintenance @ $343.94/hr.	$742,223
Lease	$298,100 3/
Insurance	$145,000 4/
Total Direct Expenses	$1,828,321
IAD/PIT Grd Hndlg @ $4.3/ pax.	$29,141
IAD/PIT Ldg Fees	$21,507
Station Salaries & Security	$163,865
BKW/BLF Ldg Fees	$6,450
BKW/BLF Rent	$16,727
USAir Pax. Fees @ $12.12/pax.	$82,137
USAir Rev Related Fees 6.3%	$46,661
Marketing & Promotion	$28,479
Crew Training	$36,046
G&A @ 18.7%	$422,495
Total Indirects	$853,508
Total Operating Expenses	$2,681,829
Profit @ 5%	$134,091
Economic Cost	$2,815,920
Comp.at 97% Completion	$2,075,262
Subsidy per Pax.	$306

1/ 6 months ended (ME) 3/31/02 of $419,097, actual, plus 85% of $378,307, which is the 4 ME 7/31/01.
2/ BKW-BLF-PIT (14.1+57.2)min. x 7/week x 43 weeks x .97/60 = 347 flt. hrs.
PIT-BLF-BKW-IAD-BLF-BKW-PIT (57.2+14.1+52.3+57.2+14.1+52.7)min. x 5/week x 43 weeks x .97/60 = 861 hrs.
PIT-BLF-BKW-PIT (57.2+14.1+52.7)min.x 7/week x 43 weeks x .97/60 = 603 hrs.
PIT-BLF-BKW (57.2+14.1) min. x 7/week x 43 weeks x .97/60 = 347 hrs.
3/ $35,550/ month thru 11/1/01 and $28,375/aircraft thereafter.
4/ $14,500/aircraft per month with prospective rates reflecting an additional 60% insurance rate hike.

Appendix B-2

Colgan Air, Inc., d/b/a USAirways Express
Compensation Requrement for EAS at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont
October 1, 2001, through December 31, 2002, Docket 2784

	15-Month Basis
Total Revenue	$4,111,399 1/
Flight Hours	7,220 2/
Passengers	44,890
Flying Ops. @ $140.00/hr.	$1,010,800
Fuel @ $154.98/hr.	$1,118,956
Maintenance @ $343.94/hr.	$2,483,247
Lease	$1,143,935 3/
Insurance	$633,360 4/
Total Direct Expenses	$6,390,298
BOS Grd Hndlg @ $4.3/pax.	$193,027
BOS Ldg Fees	$75,373
Station Salaries & Security	$568,025
AUG Ldg. Fee.	$14,643
BHB Ldg. Fee. @ $1.43/pax.	$27,769
RKD Ldg. Fee. @ $2.44/pax.	$30,244
RUT Ldg. Fee	$10,810
AUG Rent	$18,000
BHB Rent	$14,025
RKD Rent	$15,135
RUT Rent	$5,150
USAir Pax. Fees @ $12.12/pax.	$544,067
USAir Rev Related Fees 6.3%	$259,018
Marketing & Promotion	$43,050
Crew Training	$117,043
G&A @ 16%	$1,332,108
Total Indirects	$3,267,487
Total Operating Expenses	$9,657,785
Profit @ 5%	$482,889
Economic Cost	$10,140,674
Compensation at 97% completion	$6,029,275
Subsidy per Pax.	$134

1/ $1,075,245 for 10/1/01-2/28/02 + $4,419,438 *.687 for 4 ME 12/31/00 and 6 ME 8/31/01.
2/ 5,776 per preceding order * 15/12 Months = 7,220 hrs.
3/ $35,550/ month thru 11/1/01 and $28,375/aircraft thereafter.
4/ 2.6 aircraft, 12 months at $14,500/aircraft and 3 months with 60% rate increase applied.

Appendix B-3

Colgan Air, Inc., d/b/a USAirways Express
Compensation Requrement for Presque Isle, Maine
20-Month Period Ended May 31, 2003, Docket 8012

	20-Month Basis
Revenue @ $95.98/pax.	$4,127,879 1/
Flight Hours	4,792 2/
Passengers	43,008
Flying Ops. @ $139/hr.	$666,088
Fuel @ $154.98/hr.	$742,664
Maintenance @ $343.94/hr.	$1,648,160
Lease	$581,850 3/
Insurance	$359,600 4/
Total Direct Expenses	$3,998,362
BOS Grd Hndlg $4.3/ pax.	$184,934
BOS Ldg Fees	$61,677
Station Salaries & Security	$273,047
PQI Ldg. Fee	$15,022
PQI Rent	$30,000
USAir Pax. Fees @ $12.12/pax.	$521,257
USAir Rev Related Fees 6.3%	$260,056
Marketing & Promotion	$40,000
Crew Training	$77,673
G&A @ 15%	$819,304
Total Indirects	$2,282,970
Total Operating Expenses	$6,281,332
Profit @ 5%	$314,067
Economic Cost	$6,595,399
Compensation at 97% completion	$2,467,520
Subsidy per Pax.	$57

1/ December/Jan/Feb actual of $589,697*4 (months) x 1.05 seasonality*20/12 months = $4,127,879

2/ 6,144 pax. *4*1.05*20/12 = 43,008

2/ PQI-BOS, 38 flts./week x 1.5 hrs. x 52 weeks x .97 = 2,875 hrs.; 2,875 x 20/12 months

3/ $35,550/ month thru 11/1/01 and $28,375/aircraft thereafter.

4/ $14,500*12 months + $14,500*8 months*1.6

Colgan Air, Inc., Essential Air Service to be Provided to Beckley and Princeton/Bluefield, West Virginia, Docket 2761

Effective Period: October 1, 2001, through July 31, 2002.

Scheduled Service:
24 nonstop or one-stop round trips each week to either Pittsburgh or Washington.

Aircraft: 19-seat Beech 1900

Subsidy Rate per Pittsburgh/Washington Flight: Beckley, $518.30; Bluefield, $518.30 [1]

Weekly Compensation Ceilings: Beckley, $24,878.40; Bluefield, $24,878.40 [2]

Note:

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parities to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

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1 $2,075,262 compensation, divided by 2,235 annual one-way flights at Beckley and a like number at Bluefield, calculated as follows: 48 flights/week*43 weeks*.97 completion x 2 = 4,004 flits.

2 48 flights per week x $518.30 = $24,708.00.

Colgan Air, Inc., Essential Air Service to be Provided to Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, Docket 2784

Effective Period: October 1, 2001, through December 31, 2002.
Scheduled Service: Augusta/Waterville: 12 nonstop and 12 one-stop round trips each week to Boston; Bar Harbor: 12 nonstop and 12 one-stop round trips each week to Boston; Rockland: 18 nonstop and 6 one-stop round trips each week to Boston;
Rutland: 18 nonstop round trips each week to Boston
Aircraft: 19-seat Beech 1900
Rate per Boston Flight: $664.16 [1]
Weekly Ceiling each at Augusta, Bar Harbor, and Rockland: $31,879.68 [2]
Weekly Ceiling at Rutland: $23,909.76 [3]

Note:

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

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1 Compensation of $6,029,275 divided by the estimated completed departures and arrivals at a 97 percent completion factor at each community:
48 departures/arrivals x (65 weeks less 13 peak period weeks) x .97 x 3 communities = 7,263;
Rutland, 36 departures/arrivals x (65 weeks less 13 peak-period weeks) x .97 = 1,815; 9,078 total.

2 Subsidy rate per Boston flight of $664.16 multiplied by 48 subsidy-eligible flights each week. During 13 weeks each summer, Colgan shall receive no subsidy support but will be required to maintain the service above.

3 Subsidy rate per Boston flight of $664.16 multiplied by 36 subsidy-eligible flights each week. During 13 weeks each summer, Colgan shall receive no subsidy support but will be required to maintain the service above.

Colgan Air, Inc., Essential Air Service to be Provided to Presque Isle/Houlton, Maine Docket 8012

Effective Period: October 1, 2001, through May 31, 2003.

Scheduled Service:
19 nonstop round trips each week to Boston.

Aircraft: 19-seat Beech 1900

Subsidy Rate per Boston Flight: $769.42; [1]

Weekly Compensation Ceilings: $24,708.00 [2]

Note:

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

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Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

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1 $2,467,520 compensation, divided by 3,207 annual one-way flights calculated as follows:
38 flights/week*87 weeks*.97 completion = 3,207 flts.

2 38 flights per week x $769.42 = $29,237.96.